



**UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
REGION 8**

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Mr. Keith McLaughlin
Executive Director
Colorado Water Resources & Power Development Authority
1580 Logan Street, Suite 820
Denver, CO 80203

Dear Mr. McLaughlin:

The U.S. Environmental Protection Agency, Region 8, has conducted an annual review of the Colorado Water Pollution Control Revolving Fund (WPCRF or CWSRF) for calendar year 2022 (January 1, 2022 through December 31, 2022) in accordance with the EPA's State Revolving Fund (SRF) Annual Review Guidance.

Three separate state agencies have distinct roles in the management of each SRF program. The grantee is the Colorado Water Resources and Power Development Authority (Authority), which provides state match and conducts various financial functions for the WPCRF program, including working with loan recipients on financial and audit issues as well as coordinating an annual financial audit of the WPCRF program. Responsibilities of the Colorado Department of Public Health and Environment (CDPHE) Water Quality Control Division (WQCD or Division) include working with communities in completing necessary planning, design, and construction activities associated with each SRF project. Responsibilities of the Colorado Department of Local Affairs (DOLA) include outreach to local communities and conducting financial analyses of potential and existing loan borrowers. The required 20 percent state match is provided by an internal zero percent loan from the Authority that is repaid from administrative fees earned on WPCRF loans. Colorado has also added the option to provide match with an internal loan from the Authority which is repaid with WPCRF interest payments and earnings.

This annual review includes consideration of the legal, managerial, technical, financial and operational capabilities, and performance of the Authority, WQCD, and DOLA in administering the WPCRF. Activities incorporated into the annual review were an analysis of the 2022 and 2023 Intended Use Plans (IUPs), the 2022 WPCRF annual report, audited 2022 financial statements, files for two projects (Town of Wellington and Mount Werner Water and Sanitation District), four cash draws listed below, information logged into the SRF Data System, Clean Water National Information Management System (NIMS), and Colorado's CWSRF financial indicators. The EPA conducted an in-person annual review May 9-11, 2023 with an exit meeting on May 11, 2023.



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Four CWSRF Cash Draws

CS080001-22; December 23, 2022; \$1,603,691.48

CS080001-22; November 21, 2022; \$345,101.27

CS080001-22; October 20, 2022; \$1,851,331.71

CS080001-21; January 21, 2022; \$128,374.51

OBSERVATIONS: The state of Colorado managed its WPCRF program during 2022 in accordance with applicable statutes, regulations, and guidance. For the year, the WPCRF provided 16 separate funding agreements totaling \$151.8 million with a range of effective interest rates from 0.5 percent to 3.09 percent. Of the 16 agreements, two were with full principal forgiveness to fund only design and engineering phases and four went to disadvantaged communities. The 2023 IUP shows approximately \$3.2 billion in short-listed projects on its general projected loans list with an additional \$377 million for projects addressing emerging contaminants. These short-listed projects have recently received a loan, applied for a loan, or are projected to start within 12-18 months. There is approximately \$15 billion in projects on its overall project priority list (which includes the short-listed amount). By leveraging its WPCRF, Colorado has been able to fund an additional \$870 million in projects, more than double what would have been possible with a direct loan program.

In November 2021, the Bipartisan Infrastructure Law (BIL) was signed into law, which appropriated additional federal CWSRF funding for FY22-FY26 through two additional types of CWSRF infrastructure grants: BIL general supplemental and CWSRF emerging contaminants. In March 2022, EPA issued BIL Implementation Guidance with the following FY22 allotments for Colorado:

CWSRF General Supplemental: \$14,236,000, awarded September 2022

CWSRF Emerging Contaminants: \$747,000, awarded September 2022

The FY23 allotments are as follows:

CWSRF General Supplemental: \$16,674,000, application received July 2023

CWSRF Emerging Contaminants: \$1,701,000, awaiting application

Throughout the five years of BIL Implementation, EPA expects Colorado to:

- Evaluate and revise, as needed, its CWSRF affordability criteria (Colorado updated its affordability criteria in spring 2022),
- Evaluate the CWSRF's priority point system for project ranking commensurate with need,
- Consider technical assistance funding, and
- Engage residents and community stakeholders in disadvantaged communities.

Unliquidated Obligations

In calendar year 2022, the Colorado WPCRF spent \$9.2 million in federal grant funds, a decrease of \$2.0 million from \$13.2 million spent in 2021, with \$14.8 million remaining in unliquidated obligations. The state continues to spend its capitalization grants in less than two years from award, which is a very good result.

Green Project Reserve, Additional Subsidy and Equivalency

The Colorado WPCRF met its FY21 Green Project Reserve (GPR) requirement through the

FY21 base capitalization grant. They are in the process of identifying projects for the FY22 base, BIL general supplemental, and BIL emerging contaminant grants.

The state recently changed its additional subsidy strategy, providing principal forgiveness for design and engineering phase(s) for WPCRF borrowers. For communities that struggle to afford projects, this approach enhances readiness to proceed for future capital projects. Colorado met additional subsidy funding levels through its FY20 base capitalization grant and has started making progress toward meeting the additional subsidy for the FY21 base grant as well as the FY22 BIL general supplemental grant. The state will work toward awarding the required additional subsidy for the FY22 base and BIL emerging contaminant grants this year.

The Colorado WPCRF met the FY22 equivalency requirements for the base capitalization grants through FY22, as well as the FY22 BIL general supplemental grant. The state is planning to fund one emerging contaminant project to spend both the FY22 and FY23 emerging contaminant grants. The FY23 emerging contaminant grant has yet to be awarded, so once this occurs and a project is selected, the grant requirement will be met for both grant years.

CWSRF Project Progress

For more traditional measures, the CWSRF is summarized below with the following table, which presents fund use rate and pace of construction at the end of 2022.

Colorado WPCRF Program Summary - December 31, 2022 (\$ millions)				
CWSRF Funds Available for Projects	Assistance Provided	Fund Use Rate	Project Disbursements	Pace of Construction
\$1,553.6	\$1,537.4	99%	\$1,376.5	90%

As of December 31, 2022, Colorado's WPCRF *fund use rate* increased to 99 percent with approximately \$16.3 million uncommitted, a substantial decrease of \$58.4 million from the end of 2021. The WPCRF fund use rate has increased starting in 2020, reaching its highest point in the last decade in 2022. Overall, the state is committing all funds to projects in less than two years, and the 2023 projected loans list had approximately \$3.2 billion in potential projects, easily identifying sufficient uses for all CWSRF funds including its base and BIL FY23 grants.

In 2022, the WPCRF spent \$71.7 million in construction expenses, and the *pace of construction* (disbursements divided by total project amounts) decreased from 94 percent to 90 percent, a result not surprising given the state funded \$149.7 million in new projects in 2022. Colorado's *federal return* increased from 3.27 to 3.37. Overall, Colorado SRF staff manages projects very well.

A key component of strategic SRF fund management is the balancing of cash inflows and outflows. The following ratio shows how efficiently Colorado's WPCRF is revolving by examining the program's disbursement rate over a set time and comparing it to the amount of cash on hand. The ratio is calculated by subtracting total project disbursements (\$1,376.5

million) from total funds available (\$1,553.6 million) and comparing this number (\$177.1 million) to the average annual disbursements over the past three years (\$59.3 million). For the Colorado WPCRF, this ratio is 2.99 (years), which shows that this program in 2022 was using all funds in just under three years, a good result.

Colorado WPCRF project milestones accomplishments as of June 30, 2022, as provided from CWNIMS, are as follows (in \$ millions). The percentage of project completions to funds available is a stellar 77 percent, well above the national average of 68 percent.

June 30, 2022 Data (\$ millions)

- CWSRF Funds Available: \$1,586.2
- Project Assistance: 300 projects at \$1,471.1
- Construction Starts: 297 at \$1,464.9
- Project Completions: 270 at \$1,214.8

Overall, the Colorado WPCRF is performing well in working with local governments to build treatment works projects to further the goals of the Clean Water Act.

Financial Sustainability

Based on information from CWNIMS as of June 30, 2022, the Colorado WPCRF's *Net Return* increased slightly in FY22 from \$35.1 million to \$35.5 million. In FY22, the state collected \$5.1 million in interest payments and \$1.6 million in interest earnings, respectively, and paid \$6.3 million in bond interest expense. The *Net Return on Contributed Capital* (contributed capital being the sum of federal outlays and deposited state match) decreased slightly from 7.4 percent to 7.3 percent in FY21. Attached to this report is a table that shows each indicator in further detail for the past five years.

Total Net and Net Interest Margin

Total Net measures the extent by which internal growth is generating additional funding for new projects. This is calculated by taking the total cash inflows generated by ongoing loan and investment activity less bond repayments and interest payments. New federal capitalization grants are excluded from this calculation. For FY22, the Colorado WPCRF's *Total Net* was \$23.4 million.

Net Interest Margin measures the percentage rate of return the SRF is generating from its Total Assets through loans and investments less bond interest expense. For FY22, the Colorado WPCRF's net interest margin was 0.05%, based on an annual net interest amount of \$0.4 million and an average of total assets of \$748.5 million and \$864.8 million at the beginning and end of FY22, respectively (total assets were reported in the financial statements).

Financial Management and Proportionality

The Colorado WPCRF shows sound financial health and management. Except for one payment default in 2016 that was immediately resolved, there have been no other defaults and all municipal loans are secured by revenues from user charges and/or full faith and credit of the borrowing entities. The total net position as of December 31, 2022 was \$499.5 million (including undrawn federal grant funds), a three percent increase over the 2021 net position of \$483.9

million as reported in the financial statements. The four cash draws analyzed as part of this annual review (three from the FY22 base grant and one from the FY21 base grant) were done with a 100 percent federal proportionality ratio. Furthermore, the payment requests for the cash draws were for eligible costs and were adequately documented. No costs were questioned and there were no improper payments.

In April 2023, Forvis, LLP issued audited financial statements on the WPCRF for the year ending December 31, 2022. No issues or recommendations were identified with this document.

PRIOR RECOMMENDATIONS: There were no recommendations from last year's review.

NEW RECOMMENDATIONS: There are no new recommendations with this year's annual review.

The Colorado CWSRF assessment has been completed by SRF coordinator, Jenn Berig, in collaboration with the EPA Region 8 SRF team. You may reach Jenn with any questions at (303) 312-6262 or Berig.Jennifer@epa.gov

Sincerely,

Benjamin Bents
Manager
Technical and Financial Services Branch

cc: Mark Henderson, P.E., Colorado Department of Public Health and Environment
Desiree Santerre, Colorado Department of Local Affairs

CWSRF FINANCIAL INDICATOR WORKSHEET
COLORADO WPCRF PROGRAM: (Cumulative Amounts in \$ Thousands)
2018 - 2022

	Dec. 31 2018	Dec. 31 2019	Dec. 31 2020	Dec. 31 2021	Dec. 31 2022
Fund Use Rate					
Colorado CWSRF Assistance Provided	\$1,218,410	\$1,278,913	\$1,371,700	\$1,387,676	\$1,537,365
Colorado CWSRF Funds Available	1,303,991	1,373,982	1,427,980	1,462,370	1,553,649
Fund Use Rate	93%	93%	96%	95%	99%
Colorado CWSRF Funds Available:					
Net Capitalization Grants (Minus \$ for Administration)	346,671	358,873	371,076	383,278	406,547
Total State Match	65,954	68,496	71,038	73,580	76,855
Transfer from/(to) DWSRF	0	0	0	0	0
Net Funds Provided from Leveraged Bonds	753,415	787,550	801,421	851,426	890,896
Net Return*	25,632	28,194	30,862	35,095	35,491
Net Loan Principal Repaid	115,224	134,557	157,270	123,136	148,006
CWSRF Funds Used for Refunding	(2,905)	(3,687)	(3,687)	(4,146)	(4,146)
Colorado CWSRF Funds Available	1,303,991	1,373,982	1,427,980	1,462,370	1,553,649
Project Disbursements					
CWSRF Assistance Provided	1,156,643	1,198,732	1,259,265	1,304,796	1,376,541
CWSRF Assistance Provided	\$1,218,410	\$1,278,913	\$1,371,700	\$1,387,676	\$1,537,365
Pace of Construction	95%	94%	92%	94%	90%
Project Disbursements					
Federal Outlays	1,156,643	1,198,732	1,259,265	1,304,796	1,376,541
Federal Outlays	353,647	367,930	384,283	399,248	408,672
Federal Return	3.27	3.26	3.28	3.27	3.37
Project Disbursements					
Colorado CWSRF Funds Available	1,156,643	1,198,732	1,259,265	1,304,796	1,376,541
Colorado CWSRF Funds Available	1,303,991	1,373,982	1,427,980	1,462,370	1,553,649
Overall Flow of Colorado CWSRF Funds	89%	87%	88%	89%	89%
Undisbursed Project Funds					
Undisbursed Project Funds	147,348	175,250	168,715	157,574	177,107
3-year Average Annual Disbursements	58,353	59,587	55,883	49,384	59,270
Ratio of Undisbursed Funds to Disbursements	2.53	2.94	3.02	3.19	2.99
Additional SRF Assistance Due to Leveraging					
Colorado CWSRF Assistance Provided	\$1,218,410	\$1,278,913	\$1,371,700	\$1,387,676	\$1,537,365
Colorado CWSRF \$ Available w/out Leveraged Bonds	553,481	590,119	630,247	615,089	666,899
Additional WPCRF Loans Due to Leveraged Bonds	664,928	688,793	741,454	772,587	870,466
Cumulative SRF \$ Available w/out Leveraged Bonds:					
Net Capitalization Grants (Minus 4% for Administration)	346,671	358,873	371,076	383,278	406,547
Total State Match	65,954	68,496	71,038	73,580	76,855
Transfer from/(to) DWRF	0	0	0	0	0
Net Return*	25,632	28,194	30,862	35,095	35,491
Net Loan Principal Repaid	115,224	134,557	157,270	123,136	148,006
Cumulative SRF \$ Available w/out Leveraged Bonds	553,481	590,119	630,247	615,089	666,899
Interest Payments					
Interest Payments	\$220,872	\$227,913	\$234,909	\$241,584	\$246,668
Interest Earnings	226,315	231,673	236,792	244,114	245,721
Bond Interest Expense	(414,515)	(424,352)	(433,799)	(443,563)	(449,858)
Match Principal Repaid	(7,040)	(7,040)	(7,040)	(7,040)	(7,040)
Net Return Excludes Subsidy*	25,632	28,194	30,862	35,095	35,491
Net Return	25,632	28,194	30,862	35,095	35,491
Contributed Capital	419,601	436,426	455,321	472,828	485,527
Net Return on Contributed Capital*	6.1%	6.5%	6.8%	7.4%	7.3%
Interest Payments					
Interest Payments	7,838	7,042	6,996	6,675	5,084
Interest Earnings	5,134	5,358	5,119	7,321	1,608
Loan Principal Repayments	40,348	41,044	41,793	50,226	43,024
Leveraged Bond Principal Repaid	(22,355)	(22,370)	(23,380)	(24,335)	(20,050)
Bond Interest Expense	(10,697)	(9,837)	(9,447)	(9,763)	(6,295)
Total Net (Annual Amounts)*	20,268	21,236	21,081	30,124	23,370
Loan Interest					
Loan Interest	7,838	7,042	6,996	6,675	5,084
Investment Interest	5,134	5,358	5,119	7,321	1,608
Bond Interest Expense	(10,697)	(9,837)	(9,447)	(9,763)	(6,295)
Annual Net Interest /	2,275	2,562	2,668	4,233	396
(Total Assets Prior Yr. + Total Assets Current)/2*	754,015	755,509	791,330	783,058	806,626
Net Interest Margin*	0.30%	0.34%	0.34%	0.54%	0.05%

* As of June 30 of each year